

AIR COMMAND AND STAFF COLLEGE

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BLENDED RETIREMENT SYSTEM; EFFECTS ON PHYSICIAN RETENTION

by

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Table of Contents

	Page
Disclaimer	ii
Table of Contents	iii
List of Figures	v
Abstract	vi
INTRODUCTION	1
Nature of the Problem	1
Purpose of the Study	2
Research Question	2
Research Methodology	2
BACKGROUND & LITERATURE REVIEW	3
Background	3
History of Military Retirement Systems	6
Current Military Retirement Systems	7
Current Financial Benefits	8
Current Healthcare Benefits	10
Current Non-Monetary Benefits	12
Blended Military Retirement System	12
Financial Benefits	13
Healthcare Benefits	16
Non-Monetary Benefits	17
EVALUATION	17
Methodology	17
Assumptions/Limitations	18
Decision Point 1 - 8 Years	18
Decision Point 2 - 12 Years	20
Decision Point 3 - 20 Years	21
ANALYSIS OF RESULTS	23
Current System vs. Blended	23
Overall Analysis	24
CONCLUSION	24
RECOMENDATIONS	25
Increase Matching Baseline	25

Financial Training/Awareness.....	26
Additional Studies	26
Endnotes	27
Bibliography	30



List of Figures

Figure 1. Current Retirement Systems.....	10
Figure 2 - Military Retention 2013	16
Figure 3: 8 Yr Point	20
Figure 4: 12 Yr Point	21
Figure 5 - 20 Yrs	22



Abstract

The difficulty in retaining military medical professionals is not a new problem, but one that has been plaguing the military Services for decades. Issues range from having to endure difficult working conditions, time away from family and friends during deployments, pay, and retirement systems that can change over time. One of the greatest benefits, and one that helps retain many of these medical professionals is the promise of a military pension. Once an individual completes a twenty-year Service commitment, they are eligible to receive a pension for the rest of their life. Civilian employers try to entice military physicians away from the military with lucrative contracts and competing retirement plans; some think this will happen more-so as the military switches to a new Blended retirement system.

This research paper will evaluate the financial differences between the current military retirement system and the new Blended retirement system which takes effect January of 2018. Three critical decision points in a military physicians career will be analyzed to determine the positives and negatives of the new system on financial benefit. Finally recommendations will be made on additional studies that can be conducted and proposed changes to the new system that could possibly increase retention.

INTRODUCTION

Nature of the Problem

Physicians and medical professionals are essential to the well-being of every person in this great nation. Not only do they take care of our ill, but mend our injuries and keep us running at optimum levels. Military medical professionals are even more so, in that they are the backbone of the US Armed Services. These dedicated individuals ensure readiness by providing care not only to our service members, but they also provide assistance to the families of those serving, and those that have since retired from service. Only by recruiting the best and brightest, training and equipping them with the latest and greatest procedures along with appropriate equipment and we expect them to keep improving the quality of life for our service members and families. However, if we cannot keep and retain our physicians past their initial commitments, then we are in danger of not providing adequate care in a timely and efficient matter. The loss of these physicians could mean having brave service members coming home with deployment-related injuries that are not getting the quality care they need in a timely fashion.

Over the past thirty years there have been some changes to the military retirement system, from the Final Basic Pay, to High-3, to REDUX, and now to the Blended System. Each of these changes to the retirement system were done to either save costs or improve retention, but in most cases each change has produced fewer monetary benefits for our retired military members. There is concern that when the new retirement system takes effect in January 2018, that there will be less monetary benefit, and will therefore result in lower physician retention.

Purpose of the Study

The purpose of this paper will be to evaluate the differences between the current military retirement systems and the new Blended retirement system to see if there is a drastic difference in the benefits they offer retiring military physicians. This study will look solely at the financial incentives of each to make a determination as to whether or not physician retention may be affected by the change.

Research Question

The DoD has historically seen lower than desired retention rates within the physician career field due to pay, working conditions and access to innovative procedures. Will the Department of Defense (DoD) decision to transition to the new Blended Retirement System in 2018 lead to lower physician retention rates?

Research Methodology

This paper will use an evaluation framework to identify the potential impacts the new Blended retirement system will have on physician retention. First, the paper will examine in detail the differences between the current military retirement system and the new Blended retirement system, which will take effect January 1 of 2018. Then a quantitative analysis will be used to see the true financial benefits for physicians across the different stages of their careers to include comparing with civilian physician retirement plans. Finally, correlations will be drawn to retention based on financial benefit, and recommendations will be provided.

BACKGROUND & LITERATURE REVIEW

Background

The Government Accountability Office (GAO) has written and published reports talking to the military's difficulties hiring new recruits into the system, and then furthermore issues in retaining those service members after they have completed their initial commitments. Issues are not excessive in any one particular branch of the military, but spread across them all; Army, Navy, Air Force, National Guards, and Reserves. The issues are also not limited to any specific medical career field as the difficulties in accession and retention affect; physicians, nurses, dental specialists and the overall category of medical officers.

To aid in accession, military medical professionals are recruited into service with many advantages over other individuals entering service; one of the biggest is that they enter in as a commissioned officer whether they have completed medical school or not.¹ For instance, when someone joins the military while in medical school through the Medical and Dental Student Stipend Program, Health Services Scholarship Program, or the Uniformed Services University of Health Sciences program, they would automatically enter as a second lieutenant. Once an individual completes their courses, graduates and receives their degree, they automatically advance to the rank of captain if they were serving in either the Army or Air Force.

On top of becoming a commissioned officer, additional benefits can be gained in the military medical profession to include paid schooling and training, retention bonuses, and special pay, which can vary depending on the specific medical specialty once is enrolled. Medical school cost alone can range anywhere from \$32,000 to \$62,000 a year depending on the school attend, leaving the student with well over \$100,000 of school debt to pay off.² Having this

amount covered by the government is a huge benefit and plays a role in gaining personnel, along with accession bonuses that can range anywhere from \$20,000 to \$60,000 for a four-year commitment.

One can see that there are many advantages to joining the military medical services, but there are also many hardships that these individuals endure that made this a difficult career field. Col Erin Edgar from the United States Army wrote a paper on Army physician retention, and he saw that there were three main reason or factors that influenced a doctor's decision to stay or leave service. The issues identified were combat deployments, administrative burdens, and financial.³

Deployments produce a hardship on all of our service members; they are away from their families and put in harms way. With no end to missions the United States military faces, this will continue to be a consequence of the job. If there are surges as seen in the past with Iraq and Afghanistan, deployments could be extended beyond the normal six-month tours we currently see. These deployments could easily way on one's job satisfaction and decision as to whether to say in service or leave. The only option that could assist in this is to either fight fewer wars, which isn't likely, or to hire additional people to enable shorter deployment. Unfortunately, the cycle for bringing people on and training them for these surges can take years whereas the military would need them immediately to have an affect the deployment durations.

The administrative burdens military physicians face, are those of minimal support staffing⁴ and the hassles of electronic medical records.⁵ Claims made by Army physicians state that they are preforming unnecessary ancillary tasks that would be performed by support staff in the private sector. Military medical records also eat up much of the physician's time due to cumbersome interfaces, downtime of the system and the facts that it focuses the attention of data

instead of patient care. However, this is not too much different than what we see in the private sector where doctors still must keep up with regulations and electronic medical records. There are many complaints about the private industries largest electronic medical records software Epic; these range from the time it takes to enter records, lack of interoperability between other systems, and lack of reliability of the information contained within.⁶ Noting that the issues seem to be similar on both sides of the fence there seems to be little one could do here to fix the problem, or make it more enticing for military physicians to remain in service concerning this particular issue.

The final issue that Col Egar points out is pay and compensation. There are many reports pointing to discrepancies between physician pay between the military and the private sector. Even with the offered Incentive Special Pay and Retention Pay, salaries of military physicians can come in far less than their counterparts in the outside world.

In recent years, federal spending has gained increased attention with military budgets shrinking from previous years with acquisition programs and programs deteriorating as well. As seen currently at the beginning of President Trumps' administration, there is a minimum of a ninety-day hiring freeze, which affects the civilian workforce, but he is also examining the previous budget submission looking for additional cuts that can be taken. In the past Obama administration, we saw sequestration take effect which levied spending cuts to the United States federal government as a result of not meeting the targets in the Budget Control Act of 2011. In the 2013 budget we saw a decline in Defense spending of approximately sixty billion dollars.⁷

One of the more recent areas of focus for Congress has been compensation and retirement plans for our valued military members. In 2015 the Military Compensation and Retirement Modernization Commission submitted a report to the President and Congress on the proposed

changes to the current military retirement system. Their proposal states that the newly proposed "Blended" retirement system will provide a more "flexible, modern and relevant" retirement system so what the United States military can recruit and retain the best and brightest.⁸

History of Military Retirement Systems

Military Retirement plans have always been a large portion of the current military compensation packages. The thought of these retirement plans was enough to encourage young men and women to continue service past their initial commitment and to make a career out of the military. Without benefits to these military members, there would be little to keep them in service when there could be better opportunities in the outside world without putting themselves in harm's way.

Before 1961, there was no legislative authority that provided for either voluntary or involuntary separation from the military's Armed Forces.⁹ The Legislative authority was driven by hearings held before the House of Military Affairs Committee. Testimony stated that there was; "unsatisfactory personnel conditions in the Regular Army which prompted these repeated recommendations," and that "while the law provided a pension of one-half pay for disabled officer, there existed no provision for compulsory separation."¹⁰ These statements infer that military members were staying in Service much further than what their capacity would allow. In some cases these individuals would occupy positions until death, which would prevent promotion potential for younger and apter members in the junior ranks.

The hearings before the House of Military Affairs Committee drove statutes that allowed the voluntary retirement of an active duty member after 40 years of service.¹¹ Later that same year this statute was further amended to account for involuntary disability retirement after 45

years of service or at age 62.¹² Retirement pay and benefits for this first instance of retirement benefits provided to the military varied between all Services and last position held by the service member. However, it allowed for more senior members to move on and allow for our younger members to work up through the ranks.

Since 1861 there have been some changes to the retirement system before arriving at what is currently seen as the military retirement system. In some years such as 1922 where there was a need to reduce force, the War Department Appropriations Act allowed retirement for those service members with as low as 10 years of commissioned service.¹³ In 1948 is where the beginnings of the current military retirement structure that requires a 20-year service commitment before retirement, and a calculation of benefit based on the salary earned in the last year of commissioned service.¹⁴ This formula which retirement compensation being based of the last year's earnings held true up until the 1980's were there started to be changes in how this was calculated. It was in 1980 where the calculation started to be built off the average of the last three years of salary, and in 1986 included an option for reduced pension benefits if the individual chose to take a retention bonus at year 15. From here on the paper will look in detail at the current retirement system and the new Blended retirement system before getting into the analytics to see the true cost benefit of each system.

Current Military Retirement Systems

The current military retirement system provides three types of retirement benefits to services members who complete at least twenty years of service to our country. The three categories of benefits are financial, in the form of a pension, healthcare, and non-monetary. Unfortunately if a service member leaves before his or her twenty-year commitment, they leave

with nothing. This does not take into account disability pay if a service member were to become injured in the line of duty, which may result in compensation. Even though these disability payments may be common, this paper will only examine those benefits available to all service members reaching the twenty-year mark.

Current Financial Benefits

The main benefit in the military retirement system is that of future financial payments in the form of a monthly pension. A pension is known as a defined benefit retirement plan, which gives beneficiaries, specified monthly payments upon retirement.¹⁵ The United States government is one of the last employers in the nation to still participate in a defined benefit program. A study performed by The Society for Human Resource Management showed that in 2013 only 19% of US companies still provide their employees a defined benefit plan, showing that they are not as common as other retirement plans.¹⁶ These defined monthly payments provided by the defined benefit plans provide much financial security that people need when hitting retirement age when they are living on limited income.

For current active service members, there are three ways their financial benefit can be calculated based upon when they came into service. The first is for military members beginning service before September 8, 1980. Any service member who joined before this time will have their retirement payment determined by multiplying their terminal basic pay at their time of retirement by a factor of 2.5% for each year or service completed. For instance, if a military members terminal basic pay at the time of retirement was \$50,000 and they had served 25 years the calculation would be: $\$50,000 \times (25 \times 2.5) = \$31,500$ for the annual benefit. After 1980 the retirement calculation changed so that it was no longer the last year's terminal basic pay which

fed the calculation, instead it is based on the "monthly retired or retainer pay base", which is equal to the members "high three year" average monthly basic pay.¹⁷ What this equates to is that every service member who completes twenty years of service and retires from the military will receive 50% of their last year's base pay or "high three" average for the rest of their life; with an additional 2.5% for every year completed past 20.

The third and latest calculation available for military member is what is known as the REDUX system. If a service member joins the armed services after 1986, they get the choice to have their retirement calculated based on their "High Three" pay, or they have the option to choose the REDUX calculation. If the service member chooses the REDUX option, at fifteen years of service, they will receive a \$30,000 Career Status Bonus.¹⁸ Many Service members could see this amount as quite substantial and put the money towards a down payment on a house, or other large purchase. However, by choosing this option the service member will also be accepting a reduced pension of 1% for each full year of creditable service less than 30. So for instance when a military member chooses to accept the REDUX payment at 20 years, their multiplier would be: $(2.5\% \times 20 \text{ Years}) - (1\% \times 10 \text{ Years}) = 40\%$. In essence by accepting the terms of the REDUX retirement system, the service member is forfeiting 20% of the pension benefits they would have received under the High Three calculation. The difference decreases until the service member reaches 30 years of service.

There is yet one more difference when choosing between calculations and that is the Cost of Living (COLA) increase. When a service member's pension is calculated under both the Final Basic Pay and the High Three calculation, they receive COLA increases each year based on the rise and fall of the Consumer Price index.¹⁹ These COLA increases allow the payments to fluctuate with the rise and fall of inflation. Over the past ten years the COLA has averaged 2%

and allows retirees the same purchasing power as in the first year they received a pension.²⁰ If the REDUX calculation is chosen, the COLA inflation factor is reduced by 1. This COLA reduction factor is reset at age 62, but for the time in between retirement and age 62 a service member could be missing out on as much as 25% COLA Increase.

The three different currently available retirement systems and calculations summarized and listed below:

Retirement Options Comparison			
	Final Basic Pay Plan	High-Three Years Plan	REDUX Plan
Basic retirement pay at 20 years	50% of the final pay	50% of the High-Three Years Plan basic pay	40% of the High-Three Years Plan basic pay
Additional retirement pay for every year over 20	2.5% (Max 75%)	2.5% (Max 75%)	3.5% (Max 75%)
Bonus in the 15 th year	None	None	\$30,000
Cost of Living Allowances	Equal to the increase in the CPI	Equal to the increase in the CPI	1% less than the increase in the CPI
Eligibility: date entered active duty	Before 8 Sep 80	After 7 Sep 80	After 31 Jul 86

Figure 1. Current Retirement Systems²¹

Current Healthcare Benefits

Healthcare expenses are increasing at astronomical rates year after year. Families are finding it increasingly difficult to afford even the most basic coverage. In 2016 the average cost of purchasing medical insurance was between \$6,435 for single coverage and \$18,142 for a family.²² This makes the monthly payment for these plans \$500 to \$1,500, which can make quite an impact on anyone's budget.

All active service members and families can purchase extremely affordable healthcare insurance through the TRICARE system. There are four main versions of TRICARE that

retirees have the ability to purchase. TRICARE Prime is for active duty members, and they are automatically enrolled at no cost to them. Once an individual retires, they have access to purchase TRICARE Prime up until they reach the age of 65 for a cost of \$282 for a single member or \$565 for a family.²³ Under this coverage, active Service members are provided a primary healthcare provider on base, with most procedures being completed at a military medical facility by military doctors.²⁴

TRICARE Extra and TRICARE Standard are two additional coverage types that retirees and families may choose to purchase up to age 65. These plans offer the insured more options outside than just having procedures at military facilities, which opens up their choice of providers quite substantially. There is no cost for either of these options, but there is an annual deductible of either \$150 for individuals, or \$300 for families.²⁵ Out of pocket expenses tend to be slightly higher with these plans as the insured will most likely be paying between 15-20% of the government negotiated procedure cost.²⁶

The final healthcare coverage available to retirees is TRICARE For Life. This final TRICARE option is for those individuals over the age of 65. Once a person reaches the age of 65, they are no longer accepted under the other TRICARE options. They must first sign up for Medicare part B which is the government sponsored health insurance for all US citizens. At this point, they may choose TRICARE for Life for additional healthcare coverage. There is no enrollment fee except that the individual must pay their Medicare Part B premiums first.²⁷ TRICARE for Life then covers all additional costs above and beyond those that Medicare would cover, and anything that was previous covered under TRICARE Prime.

Current Non-Monetary Benefits

The last benefits of the current military retirement system that is hard to put a price tag on and largely overlooked are the nonmonetary ones. These benefits are those such as access to the vast network of commissaries and exchanges, which can provide great savings to those on a restricted budget. Commissaries provide groceries to military personnel, retirees and their families, while the exchanges supply goods and services similar to those provided by the larger discount stores.²⁸ Even after retirement military members have access to these stores, providing a wealth of savings for their families. Retirees also have access to childcare facilities, gyms, credit unions, bowling alleys at vastly discounted rates to those seen in the civilian world.

Blended Military Retirement System

The 2013 National Defense Authorization Act directed the Military Compensation and Retirement Modernization Commission to reevaluate the current military retirement system and modernize it to better meet the needs of the nation and our service members.²⁹ It was identified that the current retirement system did not work effectively in allowing the military branches to manage their workforces and allow the ability to flex that workforce up or down as needed in peace or wartime. The commission was given three direct objectives: "(1) ensuring the long-term viability of the All-Volunteer Force; (2) enabling a high quality of life for military families; and (3) modernizing and achieving fiscal sustainability of the compensation and retirement systems."³⁰

In 2015, the final report from the commission was delivered to the President and Congress with their proposals to amend and modernize to the new Blended military retirement system. The proposal was then approved by both parties and enacted in the 2016 National

Defense Authorization Act.³¹ This new retirement calculation and benefits package will take effect January 1, 2018. Any new service member who joins the service on or after this date will be automatically enrolled in the new program. Any uniformed military member who has been in service less than 12 years from this date will also have the ability to elect to exchange their existing retirement plan for the new calculation and benefits package.³² The military retirement package still contains the three categories of benefits that are seen in the previous retirement plan. However, the new Blended retirement system will allow service members the ability to leave service before a twenty-year commitment and still attain retirement benefits. The new Blended retirement plan will also allow the military to flex up or down in a number of personnel without leaving members while still providing some retirement benefits to those who are forced to leave service early.

Financial Benefits

Under the current military retirement plan that requires a twenty-year commitment to receive a pension, nearly 83 percent of the enlisted men and women will never see any military retirement benefit.³³ Leaving the armed services without any retirement nest egg makes transition into the civilian world extremely difficult and puts our service members behind the power curve in regards to saving for retirement. The new Blended retirement system keeps a portion of the defined benefit pension seen in the current retirement system, but adds new 401(k)-type benefits with mid-career retention bonuses as well.

The Blended retirement system still keeps the defined benefit pension, but at a lesser amount. There is still a twenty-year service requirement for a military member to receive a pension, which is the same as under the current system. The biggest difference between the

defined benefit plans is in the multiplier used to calculate the pension amount. Under the current system the calculation is based off a multiplier of 2.5 times the number of years served. The Blended retirement system lowers this multiplier by 0.5% to 2.0%³⁴. This equates to a 20% cut in pension benefits to service members and is displayed in the calculations below for a service member who makes an average of \$100,000 in their last three years of service.

$$\text{Current Plan: } \$50,000 \times (20 \text{ yrs} \times 2.5\%) = \$25,000$$

$$\text{Blended Plan: } \$50,000 \times (20 \text{ yrs} \times 2.0\%) = \$20,000$$

A 20% cut to a defined benefit plan is quite substantial and should be taken into account when determining whether to stay in the current retirement system or elect to take the Blended retirement calculation. For the years past twenty, the calculation still utilizes the 2.0% multiplier and not reduced as seen in the REDUX system if serving less than thirty years.

The biggest change seen in the new Blended retirement system is the addition of 401(k)-type benefits in the form of the Thrift Savings Account (TSP). The TSP is an investment tool that allows the investor to invest in a range of options from government securities to international, large cap, small cap, or common stock.³⁵ TSP also offers lifestyle fund that adjust the amount of risk an individual is taking with their investments automatically transitioning to less risky as the investor reaches retirement age.³⁶ Service members have had the ability to contribute to a TSP since 2009;³⁷ the difference is that they never received matching contributions from the government.

When a service member elects the Blended retirement system, they will receive an automatic contribution into their TSP account at a rate of 1% of basic pay³⁸. The service member will also be automatically enrolled to contribute 3% of his or her earnings into their TSP account.³⁹ The reasoning behind the automatic enrollment is that younger and lower income

workers find difficulty in saving for retirement, this can become increasingly more difficult if the individual is living paycheck to paycheck. Studies have shown that only 2 to 3 percent of people automatically enrolled in savings plans opt out within the first year of being enrolled, increasing the likelihood of having a more financially secure future.⁴⁰

The government has also agreed to provide matching contributions up to 5% of basic pay. How this breaks down is that the first percent is automatic with no contribution from the Service member necessary. The first three percent the member contributes, the government will match 100%. The next two percent the member contributes, the government will match at 50%. Vesting of these funds will occur after two years of military Service. Due to the high rate attrition of up to 25% within the first two years of service, the service member will not get to keep the matching unless they complete the two years of service; however, they do get to keep anything they have contributed themselves.⁴¹ If the service member contributes more than 5% of their basic pay, there will be no additional government matching.

The third change to the current retirement system is the addition of a service continuation bonus. Currently the amount of the bonus is proposed at 2.5 times the service member's monthly base pay.⁴² This amount could be seen as quite substantial with many individuals looking to make a down payment on a house or make other large purchases at that point in their lives. In times of rising or declining force structure the government could adjust the multiplier to make it seem more or less attractive for service members to stay in the military or move on to civilian careers. The service continuation bonus serves as a type of retention bonus that requires the commitment of an additional four years of service. As shown in the service retention chart below, currently the curve does not stabilize until year 12, with the possibility of a large continuation bonus the thought is that this curve will stabilize even earlier.

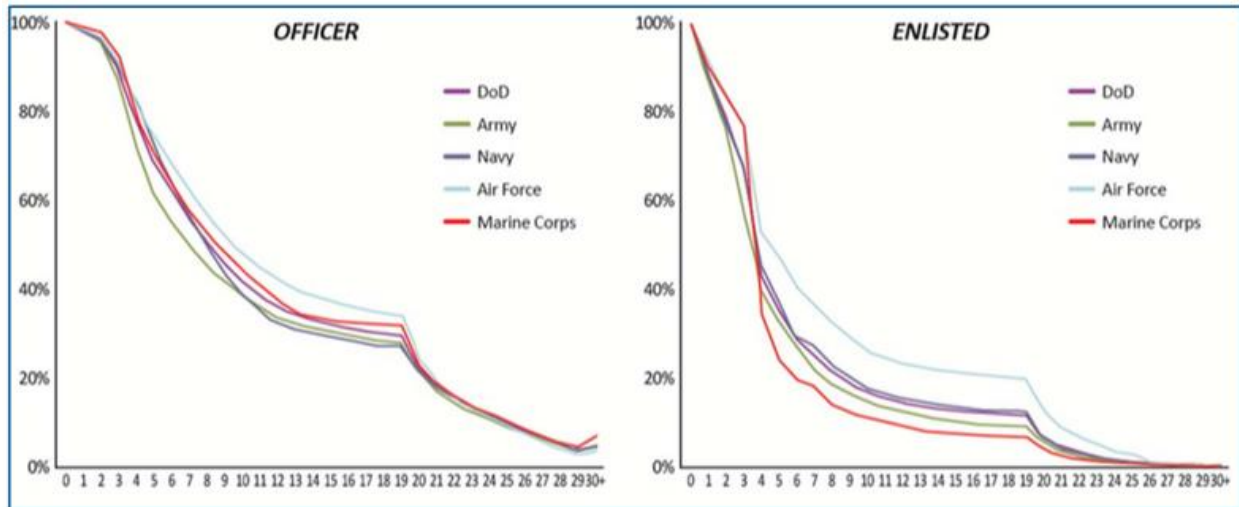


Figure 2. Military Retention 2013⁴³

Healthcare Benefits

The new Blended retirement system currently has no new healthcare insurance ramifications in regards to how it will affect the cost to retirees. All current versions of TRICARE are still available to all active duty military and their families. TRICARE for Life is still available for retirees; covering the costs of what Medicare cover.

The Military Compensation and Retirement Modernization Commission had also proposed drastic changes to the current TRICARE system, but these have yet to be approved or enacted. Changes proposed included doing away with TRICARE Select and TRICARE Extra for military families and retired military under the age of 62.⁴⁴ These plans will be replaced with plans similar to those received by civilians in the private sector with a wider variety of service providers. If this change in healthcare is approved in the future, there is the potential for an additional cost to uniformed service members that would need to be considered in this analysis.

Non-Monetary Benefits

Additional non-monetary benefits recommended by the Military Compensation and Retirement Modernization Commission includes: protecting access to commissaries and exchanges, improving access to childcare, and better-preparing Service members for transition to civilian life.⁴⁵ Non-monetary benefits only benefit those who use them and don't have a specific price attached, therefore these are impossible to quantify the financial benefit to a Service member. Even though these cannot be included in a financial calculation, these benefits should also be considered when considering the complete retirement benefits package.

EVALUATION

Methodology

The following analysis will look at key decision points when a military physician would consider remaining in the military, or leave to pursue a career in the civilian world. The first decision point will be at eight years which is the time when the physicians complete their initial commitment and have their first opportunity to leave. The second decision point analyzed will be at the twelve-year mark; this is the time where the largest retention issues happen, and also where the new Blended system aims to correct this issue by offering retention bonuses. The third decision point will be at the twenty-year mark when physicians can first retire from military service and collect a retirement pension.

At each of the three decision points, a simple cost analysis will be conducted to see the true monetary benefit. The benefits of the current military retirement plans will be calculated based on the "high-three" calculation to show the current benefits offered to a retired physician. These will then be compared to the estimated value of retirement benefit under the new Blended

retirement system with zero, 3% and 5% TSP contributions made by the military member. The last data point offered up will be the estimated value of a civilian physicians retirement account. The analysis will show which retirement plan is the best for the physician in terms of financial benefit; and the assumption will be made that the plan with the largest overall benefit would attract medical professionals

Assumptions / Limitations

To compare to civilian compensation plans, the following analysis will assume that civilian compensation will be based on a primary care physician making an average of \$195,000.⁴⁶ This amount was extrapolated from the 2015 annual Medscape survey, which polled 19,500 physicians in over 25 specialties. The civilian 401k employer matching contribution amount will be 6% based on the 75th percentile of all companies surveyed in 2015 by the Bureau of Labor Statistics.⁴⁷

All TSP and 401k growth will be based on the ten-year average of the TSP L2030 fund at 6% annual return.⁴⁸ The L2030 is a lifestyle fund offered to TSP members that adjusts investments over time to become less prone to risk as the individual nears retirement age. When calculating the value of assets needed to ensure a defined pension for life up to 80 years old⁴⁹ 2.63% inflation will be used.⁵⁰ This inflation is assuming these assets are placed into government secured funds, which provide more security, but a lower and more predictable return.

Decision Point 1 - 8 Years

The first point in which a physician will likely be faced with the decision to remain in Service or leave for a career in the civilian world is at the eight-year mark. Once eight years is completed, the initial service commitment to the government is paid, and they have the option to

remain in the military with a possible retirement pension available to them at the end of twenty plus years. Many people, especially those young in their careers have difficulty looking past the immediate future and instead of looking to the future and future values of assets they will only look to see what is currently available to them at that moment.

As depicted in Fig 3, under the current military retirement system when a military member retires within eight years, they receive nothing in the form of retirement assets. Under the new Blended retirement system, even if the service member does not contribute a single cent into their retirement account they will still have approximately \$7,500 in their TSP account due to the 1% automatic government contribution and estimated 6% annual return on those investments. If the service member wishes to continue the automatic enrollment of 3% or increase to 5% which maximizes the government matching, their retirement assets could amount to as much as \$46k or \$76k respectively. However, at the end of eight-years the civilian compensation plan may look the most appealing as assets could reach \$231k, almost three times as high as the most generous military option. The reason the civilian plan seems so much larger is because the civilian matching of 6% is based off their whole salary and not just a portion as seen with the military matching calculated off of base pay only. At the eight-year decision point, the new Blended retirement system offers physicians more benefit than the current retirement systems, but is still well behind those benefits offered by civilian plans. Unless the decision is made to stay in the military for a twenty-year commitment, neither the current nor the Blended system offers enough benefits to increase retention at the eight-year mark.

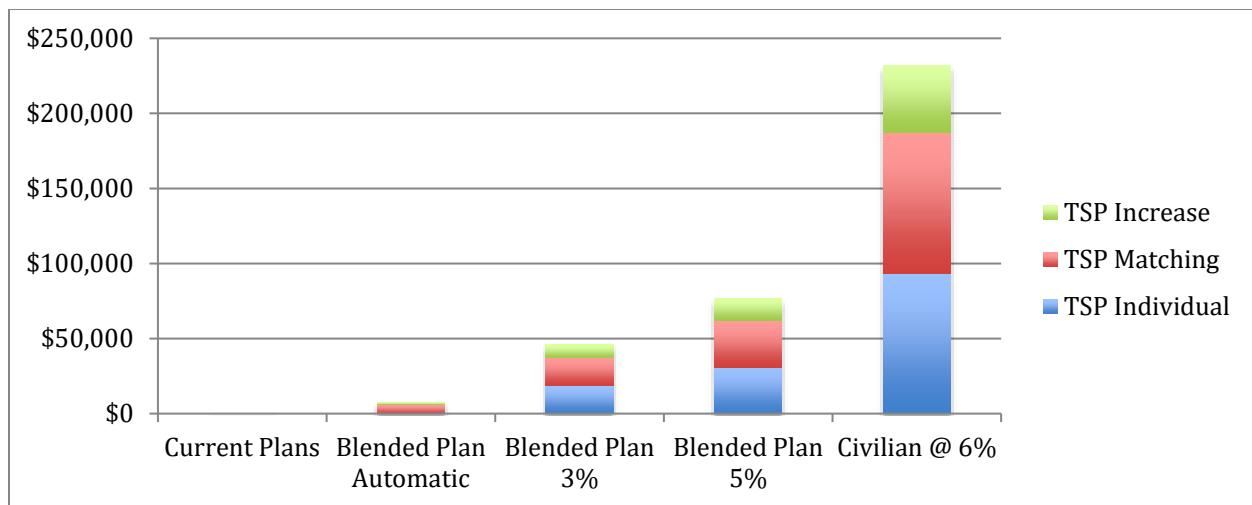


Figure 3. 8 Yr Point

Decision Point 2 - 12 Years

The picture at the twelve-year mark looks very similar to the one painted at the eight-year mark. The current retirement system offers zero benefit for military retirees, while the civilian option outpaces that military option by well over two times. The only difference seen is that "if" a military member commits to continue service for another four years, they are entitled to a retention bonus equal to three times their monthly earnings. This is a large decision point because committing the next four years would bring the individual to 16 of Service, with only four more after that until they could officially retire and receive a pension. The retention bonus may look like a large amount of money at the time that the military member could use as a down payment or means for another large purchase, but may not be enough to have them commit another four years of their life. This is especially true if the individual is still only looking at the current value of retirement assets, where clearly the civilian plan has the greatest current value with over two times that of the military TSP as shown in Figure 4

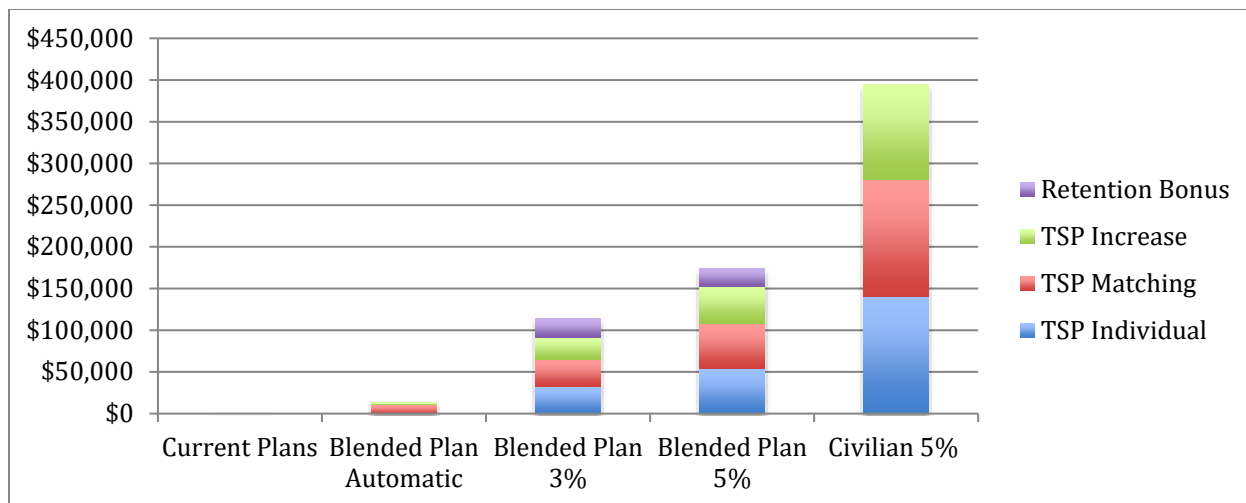


Figure 4. 12 Yr Point

Decision Point 3 - 20 Years

The twenty-year mark is when the largest difference is seen in the value of the military retirement accounts; pensions have been earned and now well outpace the benefits of the civilian retirement system. The pension value is based on the amount of money an individual would need to have saved away to ensure either the 50% pension as seen by individuals under the current retirement system, or the 40% pension based on the new Blended retirement system.

Assuming a physician is retiring at age 48 as an O-5 or Lieutenant Colonel in the Air Force, they would need approximately \$1.2M saved away to ensure their \$53k annual pension until age 80. Under the new Blended retirement system where the pension is 20% lower, the individual would only need to have saved away just under one million dollars. The cumulative assets of the Blended retirement system do not exceed those in the current plan until the individual also contributes 3% into their retirement plan with matching government contributions as depicted in figure 5. The true benefit of the Blended retirement plan is need seen until a 5% contribution is made into the TSP account where assets can total upwards of \$1.4M at 20 years.

The only thing the military member must be aware of is that they cannot touch their TSP assets without penalty until they reach age 59.5; the same is true for the civilian accounts.

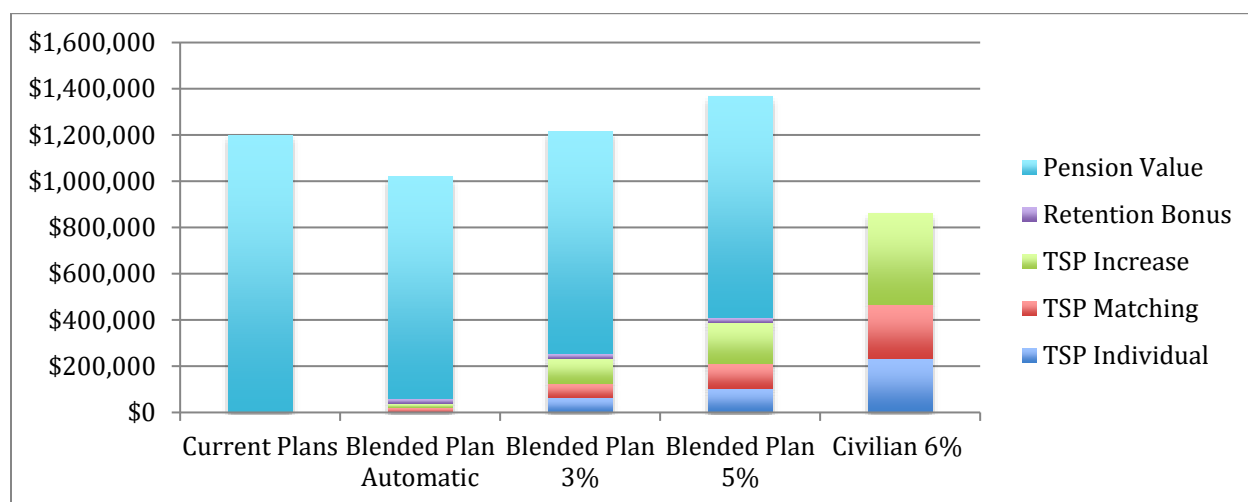


Figure 5. 20 Yr Point

Additional retirement benefits earned by the military that have served twenty-plus years may not be so easily identified, are the healthcare and nonmonetary benefits. Military members when retiring after at least twenty years of service still retain access to the TRICARE medical system at a fraction of the cost of civilian healthcare. Healthcare for a military retiree up until the age of 65 costs only \$565 annually for themselves and their families.⁵¹ Using an average of what is available to the government civilians health benefits website, a comparable plan will cost a civilian approximately \$6,600 a year.⁵² Assuming an individual retires from the military at age 48, this could equate to over a \$100,000 benefit over the years from retirement to age 65 when all US citizens must sign up for Medicare. However, these benefits are the same between the current and Blended retirement systems.

More difficult to calculate and very subjective is the other non-monetary benefits afforded to those retiring from the military. Assuming a gym membership is \$50 a month, the use of on-base gyms could save a family \$20,000 over retired years. The use of base exchanges

and commissaries can save families hundreds of dollars a year as opposed to shopping at smaller stores with less buying power. All these benefits and more should be included in ones calculations when determining the benefit of remaining in Service twenty-plus years or taking a job in the civilian world.

ANALYSIS OF RESULTS

Current System vs. Blended

The only scenario in which the current retirement system produces a greater financial benefit to the military employee is at the twenty-year mark, but only compared to when the military member does not contribute any of his or her money into a TSP. The 1% automatic government contribution in addition to a one-time retention bonus can not make up for the 20% cut to the defined benefit of the Blended system. Only when the military member contributes at least 3% of his or her salary into a TSP do the benefits of the new Blended system outweigh the current system. However, even contributing 3% into a TSP account will not create a large enough financial benefit to greatly increase physician retention over the current system.

Military members must be educated on the value of small contributions to their TSP accounts. A 3% contribution for an O-5 having served twenty-years is approximately \$3,000 a year, or \$250 a month pre-tax. With the military member having made contributions their whole career, retiring at age 48 and not touching their TSP balance until age 65, their account could reach as high as \$750k assuming the stock market produces 6% returns. This amount would be able to generate an additional \$50k annuity for the rest of their life. Amounts of TSP balance and retirement annuity would be even greater if the individual maxes out their government matching by contributing 5% of their basic pay.

Overall Analysis

The evaluation of the plans shows that if military physicians consider retirement compensation the most important factor when determining to remain in military service or leave for a civilian career; the new Blended retirement system would still help in retaining these physicians as long as they complete a twenty year Service commitment. Before reaching the eligibility for full military retirement, the results of the evaluation may lead some physicians to opt for a civilian career as they would have a much larger amount that they could tangibly see in their 401k-plans. The difficulty is educating personnel as to how much money is needed to provide for a defined benefit over their lifetime.

Additional benefits also outlined in both the current and new Blended plan must also be better emphasized in recruitment. Medical benefits offered by the military can save a family up to \$100k over the lifetime of a retiree, and access to gyms and base exchanges could save thousands more. If all these benefits are taken into account, there should no longer be the retention drop-off seen at the 8 and 12-year mark. Retention rates should stabilize and the Services will be able to retain one of its greatest assets.

CONCLUSION

The purpose of this evaluation was to evaluate the differences between the current military retirement systems and the new Blended retirement system to see if there were a drastic difference in the benefits they offer retiring military physicians. This study looked solely at the financial incentives of each to answer the question; will the DoDs decision to transition to the new Blended Retirement System in 2018 lead to lower physician retention rates?

The evaluation showed that both the current military retirement systems and the new Blended retirement system offer greater financial benefit than traditional retirement plans offered

in the civilian sector, "if" the Service member remains in service until eligible for full retirement. However, if a Service member plans on leaving before reaching full retirement age, the civilian retirement plans financial benefits far outweigh those offered by both the current and Blended military retirement systems. Based on these results, the new Blended system will not have a significant impact on physician retention. The asset values of both current and Blended systems are virtually equal if the Service member does not change the automatic enrollment of 3%. The biggest benefit of the new system is that if for some reason an individual needs to leave the military before twenty years, they at least have some retirement assets.

RECOMMENDATIONS

Increase Matching Baseline

To make the Blended retirement system more competitive with the civilian employer plans the matching baseline should be adjusted. A military physician's salary consists not only of basic pay in combination with allowance for subsistence and housing, but can also include variable special, board certification, and additional specialty pay based on the specialty of the doctor. These special pay amounts can make up to half of the physician's salary.

Considering the average physician in private industry is making on average \$195,000, if their employer offers a 6% 401k match, this equates to roughly \$12,000 annually. Compare that to the 5% matching done on an O-5's \$105,576 base pay, and the amount is roughly \$5,000. This is a \$7,000 deficit that the military plan runs when compared to private industry plans. Increasing the matching from base pay to total pay would make benefits before a twenty-year service commitment more competitive with those in private industry.

Financial Training/Awareness

The new Blended retirement system offers military members a great deal in flexibility and choice investment options. Military members need to be educated on the decisions they are making regarding these choices and the potential consequences associated with those decisions. There must be a focus on financial training and literacy for Service members so that they understand the decisions they are making and the impact a small investment on their part can garner great rewards.

In a 2008 study on the effectiveness of financial training on the participation rates of individuals contributing to defined contribution plans showed that after simple training, enrollment rates increased by 12 to 21 percent.⁵³ When military members are provided the financial education they will be likely to contribute to the defined contribution portion of the plan, and they will make more informed choices when allocating their assets. Because this is now such a large part of the military retirement package, financial education should be mandatory for all.

Additional Studies

The evaluation completed only looked at retirement benefits as a means to retain military physicians. Additional areas that could be evaluated in future studies are total pay and overall stress levels. The retirement benefit evaluation showed that based on values of those retirement benefits at age 48, both the current and Blended retirement systems are more substantial. However, no analysis was done on the current pay received. If civilian physician pay is drastically greater than that received by military members this could also be a cause for concern.

Stress can be a determining factor in whether to remain in a job or not. An overall stress survey could also be completed to show differences between military and civilian physicians. Physicians can work long hours and endure high-stress levels in both the civilian world and in the military, but it would be interesting to see if stress levels could also play a role in retention.

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